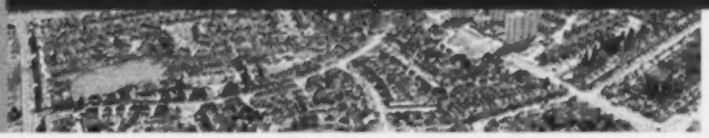
HOUSING MARKET OUTLOOK

Victoria CMA



Canada Mortgage and Housing Corporation

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The Outlook

- ***Demand for resale housing tempered by economic uncertainty***
- ***Resale market to remain in buyers' territory***
- ***Elevated supply and less spillover from the resale market will result in less new construction***
- ***Average resale home prices will adjust downward***
- ***Rental vacancies will increase as secondary rental market grows***

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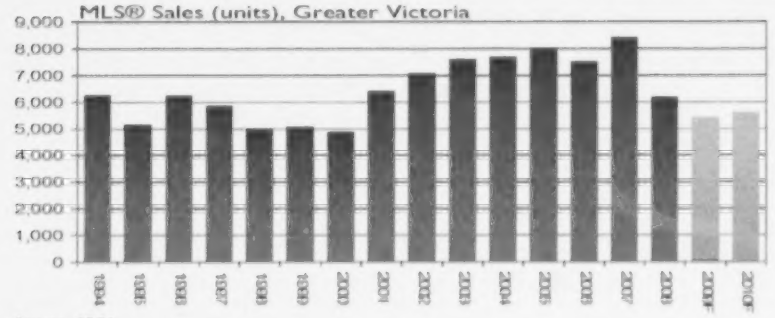
Figure 1

Resale Demand Adjusts to Changing Economy



Source: CREA

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Resale Market

Resale Market Demand Will Remain Below 2008 Levels

A slowing economy and labour market will reduce homeownership demand in the short-term. Following six years of more than 7,000 resale transactions per year in Greater Victoria, the number of MLS®[1] sales dropped 27 per cent in 2008. The diminished resale market demand was due to a number of factors, including the economic uncertainty which emerged in the second half of last year.

Sales of existing homes will pick up in the spring and summer months, but will not reach the levels achieved in recent years. An estimated 5,400 sales will be recorded in 2009, a 12 per cent decline from the 2008 level. As the global economy turns around and the British Columbia economy continues its path to recovery, a modest pick up in resales is expected.

The supply of homes on the resale market has been increasing alongside softening demand. Greater Victoria MLS listings have increased each year since 2002, peaking in 2008 at 13, 928 - up 8.5 per cent from the 2007 level. The number of listings will ease in 2009, but remain at relatively high levels?.

Buyers' Market Conditions Provide Opportunity for First-Time Homebuyers

With the reduced level of resale transactions that were recorded in 2008 and the increase in the supply of homes for sale, the resale market moved from sellers'/balanced market conditions to buyers' territory. These buyers' market conditions will persist through 2009 and into next year. The well-supplied existing home market combined with lower prices and historically low mortgage rates will offer first-time homebuyers an opportunity to enter the local housing market.

While demand started to moderate early on 2008, it took until the second half of the year before prices started to adjust to changing market conditions. This is not uncommon, as prices are generally somewhat "sticky" when adjusting to a shift to buyers' conditions. After a seven year period in which the average resale price increased on average by 12 per cent per year, price growth slowed to 4 per cent last year. Most of this price growth took place during the first half of 2008. In the fourth quarter, existing home prices were seven per cent lower than one-year earlier. This adjustment in prices will continue through 2009 and 2010, with the average Greater Victoria resale price dipping 12 per cent and 2 per cent, respectively.

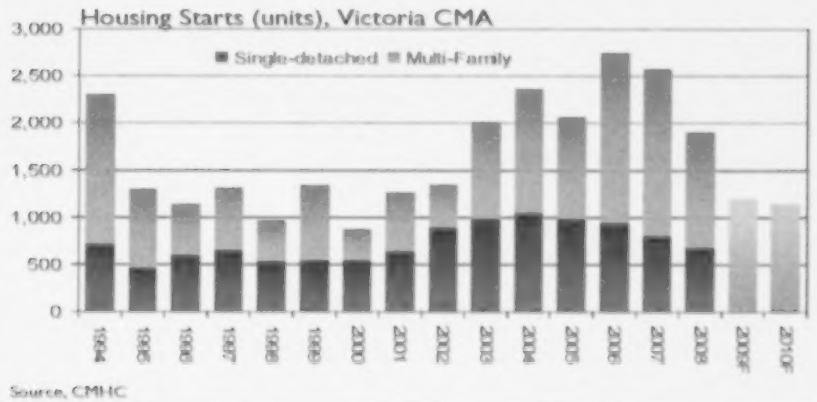
All Market Segments Have Shifted

No segment of the resale market has been able to avoid the recent softening of resale demand in the Capital region. Fewer resale transactions, the shift to buyers' market conditions, and the associated price adjustment have been observed across all market segments - single-family, townhomes, and apartment condominiums.

The apartment condominium market in Greater Victoria has had the largest downward adjustment in both resales and average price. As the economy slows, households have less discretionary income to invest in secondary homes or investment properties. Relative to the first quarter of 2008, sales were down 29 per cent and the average price declined 15 per cent in the first quarter of 2009.[2] Much of the price adjustment can be linked to a well-supplied local apartment condominium market.[3]

Figure 2

New Construction Activity Will Slow



Source, CMHC

New Home Market

Starts to Fall in Response to Resale Market Conditions

Housing starts will move lower this year and next. After peaking in 2006, the level of Metro Victoria new construction has fallen in consecutive years. With resale demand easing, there will be less spillover demand to the new home market. Weaker resale demand and a well-supplied market (both new homes and resale listings) have signaled to local builders and developers to adjust to market conditions. As a result, total Metro Victoria housing starts will move down to 1,200 in 2009 and edge down slightly to 1,150 in 2010. Responding to market demand, there has been a general decline in the number of single-detached homes built in Metro Victoria in recent years. Single-detached starts dropped 15 per cent in 2008, marking the fourth consecutive annual decline. This trend has continued, as single-detached starts have fallen in the first quarter compared to the first quarter of 2008, and will edge down for the remainder of 2009 and in 2010. New single-detached home prices have also been trending down, as the average first quarter price of $655,000 is five per cent lower than the first quarter 2008 level.

The bulk of new construction over the past few years has focused on multi-family structures and this can be linked to four key factors: (1) lower prices relative to single-detached homes, (2) densification, (3) availability of land, and (4) lifestyle/demographics. After a very strong 2007, multi-family starts fell 31 per cent in 2008. Multi-family starts (primarily apartment condominiums) will decline in 2009 as builders react to less demand and more supply. The elevated level of supply reflects a large number of new condominiums in inventory (256 units completed and unoccupied as reported by builders in CMHC's Starts and Completions Survey), nearly 1,900 units currently under construction, and nearly 200 MLS® active listings of new apartment condominiums.[4]

In terms of geography, there has been a continued trend towards residential building in the West Shore markets (Langford, Colwood, Metchosin, Highlands, and Sooke). These markets account for the majority of land available for development, and this land is relatively less expensive than that found in the Core and Peninsula markets.[5] In only five years, the West Shore markets' share of Metro Victoria housing starts has increased from 34 per cent to 70 per cent during the last five years.

Figure 3

Many Condominium Projects Under Construction Nearing Completion

Rental Market

Growing Secondary Rental Market Stock

The demand for rental accommodations has been very strong in the Victoria CMA in recent years. Over the past four years, the average apartment vacancy rate (for purpose-built structures) has remained unchanged at 0.5 per cent - one of the lowest rates across the country.

Several factors will combine to take some of the pressure off Victoria vacancy rates in the coming year, including:

Economy: The local economy has been negatively impacted by the global economic uncertainty. The economic slow down and slower job growth will reduce net migration to the region, as fewer people will be looking to relocate to Victoria in the short-term.

Supply of apartment condominiums: The current supply of apartment condominiums (inventory of new apartment condominiums, and active MLS listings) is high compared to recent years and will increase as a large number of projects currently under construction are completed this spring. A number of these newly completed apartment

condominiums will enter the expanding secondary rental market and add to the overall rental stock in the region. The growing secondary market is needed from a rental demand perspective, as there has been very little construction of new rental housing in recent years - only four per cent of total annual housing starts over the 2002 to 2008 period. The reduced level of net migration to the Capital region and the continued expansion of the secondary rental market will increase the average vacancy rate across the purpose-built apartment stock. The average vacancy rate will increase to 0.9 per cent in 2009 (October survey) and edge up to 1.2 per cent in 2010.

Moderating demand for purpose-built rental units will translate into modest average rent growth. The average one and two-bedroom monthly rents are projected to reach $795 and $1,005, respectively in 2009.

Economy

Local Economy Impacted

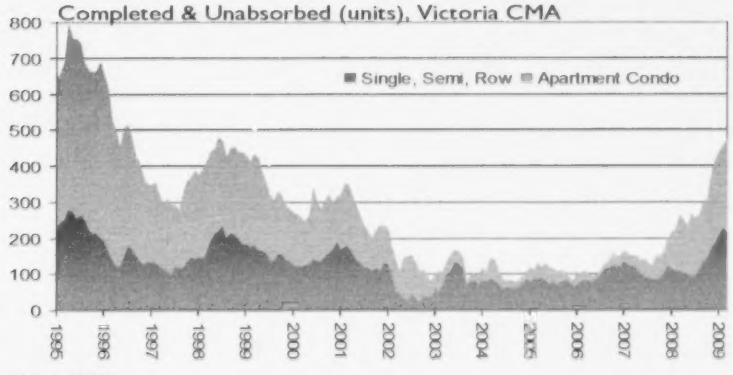
The Capital region's economy has not been spared from the negative effects associated with the global economic downturn. The economic uncertainty that resulted from the U.S.-led downturn has impacted economies across the globe, and has had a general dampening effect on consumer demand and investment in Greater Victoria.

Tourism is one local industry which has been impacted. Generally speaking when economic conditions deteriorate, household discretionary income is reduced, which in turn can postpone travel plans. This started in Victoria in the second half of 2008. Tourism revenues for 2008 are expected to total $1 billion, below the $1.23 billion recorded in 2007. Industry analysts predict a further three to five per cent decline in tourism revenues in 2009.[6] Despite declining revenues following a record 2007, some good news was recently announced with Carnival Cruise Lines shifting its Alaskan cruise operations from Vancouver to Seattle in 2010. Carnival's ships are expected to make a weekly call in Victoria during the Alaskan cruise season which spans from May to August.[7]

The Victoria CMA labour market which posted the lowest unemployment rate amongst Canadian metropolitan areas in 2008 (3.3 per cent) has also been impacted. The average level of employment over the first three months of 2009 has declined 4.3 per cent relative to the same period last year, and the unemployment rate has increased from 3.2 per cent to 5.6 per cent. Despite declining employment and a rising unemployment rate, the region's labour market will continue to outperform the province as a whole. Victoria CMA employment will fall four per cent in 2009 and rebound slightly in 2010.

Figure 4

Inventory of Unsold New Homes Rising



Source: CMHC

Considerable Non-Residential Investment

Non-residential investment in Victoria will support the local economy. Over the second half of 2008, the inventory of major projects across Greater Victoria dropped 15 per cent - from $11.3 billion to $9.5 billion.[8] These figures include all major residential and non-residential construction projects that are in either the proposed or in the under construction phases. Some of the non-residential projects that are proposed or under construction include: the Victoria sewage treatment plant, the Royal Jubilee Hospital patient care centre, the Uptown shopping centre redevelopment, the NEPTUNE Canada project, the Victoria International Airport runway expansion and interchange, and several major high school renovations/upgrades.

While the value of the inventory of major projects has declined, there are signs that non-residential construction will continue to support the local economy as the housing market recovers. The value

of non-residential building permits issued in February was substantially higher than those recorded in February 2008 and in recent months.[9]

Even though residential construction will moderate in the short-term, there will be considerable non-residential construction that will impact the rest of the local economy through spin-off effects. Non-residential construction will create jobs and income, which in turn will generate demand for housing.

Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

[1] *Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.*

[2] *Source: Victoria Real Estate Board (VREB)*

[3] *When examining the supply of apartment condominiums, it is essential to take into consideration: MLS® active listings, the inventory of new units, and the number of units currently under construction.*

[4] *The MLS® active listings estimate refers to all listed apartment condominiums with construction completion dates of 2009 or later.*

[5] *Core markets: Victoria (city), Saanich, Oak Bay, and Esquimalt. Peninsula markets: N. Saanich, C. Saanich, and Sidney.*

[6] *"Victoria tourist officials stay upbeat despite forecast", Victoria Times-Colonist, 9 February 2009.*

[7] *"Carnival Adds Victoria to its Stops", Victoria Times-Colonist, 17 March 2009.*

[8] *Source: Major Projects Inventory, Ministry of Small Business, Technology and Economic Development, December 2008.*

[9] *Source: Statistics Canada - seasonally adjusted value of building permits.*

Forecast Summary
Victoria CMA
Spring 2009

	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	7,500	8,403	6,171	5,400	-12.5	5,600	3.7
MLS® New Listings	12,280	12,840	13,928	11,500	-17.4	11,800	2.6
MLS® Average Price ($)	427,154	466,974	484,898	425,000	-12.4	420,000	-1.2
New Home Market							
Starts:							
Single-Detached	928	795	673	650	-3.4	550	-15.4
Multiples	1,811	1,784	1,232	550	-55.4	600	9.1
Semi-Detached	146	213	154	190	23.4	180	-5.3
Row/Townhouse	198	158	150	160	6.7	160	0.0
Apartments	1,467	1,413	928	200	-78.4	260	30.0
Starts - Total	2,739	2,579	1,905	1,200	-37.0	1,150	-4.2
Average Price ($):							
Single-Detached	552,363	629,278	676,701	645,000	-4.7	640,000	-0.8
Median Price ($):							
Single-Detached	498,000	564,450	599,900	580,000	-3.3	575,000	-0.9
New Housing Price Index (% chg.)	3.8	0.5	-0.1	-8.0	-	-3.0	-
Rental Market							
October Vacancy Rate (%)	0.5	0.5	0.5	0.9	0.4	1.2	0.3
Two-bedroom Average Rent (October) ($)	874	907	965	1,005	4.1	1,045	4.0
One-bedroom Average Rent (October) ($)	681	716	764	795	4.1	825	3.8
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level (,000)	175,200	182,900	190,900	183,500	-	187,000	-
Employment Growth (%)	3.5	4.4	4.4	-3.9	-	1.9	-
Unemployment rate (%)	3.7	3.3	3.3	6.4	-	6.7	-
B.C. Net Migration [1]	52,789	58,277	61,559	62,700	1.9	63,000	0.5

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) B.C. net migration data is presented, as updated net migration data for Victoria was not available at the time of the HMO release.

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